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**CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED**

**招商局中國基金有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 133)**

**(1) CONTINUING CONNECTED TRANSACTIONS  
RENEWAL OF THE BROKERAGE AGREEMENTS**

**(2) POSSIBLE VERY SUBSTANTIAL DISPOSALS  
RENEWAL OF THE MANDATES FOR  
THE PROPOSED DISPOSAL OF SHARES IN  
CHINA MERCHANTS BANK CO., LTD.  
AND INDUSTRIAL BANK CO., LTD.**

**(I) The Brokerage Agreements**

On 13 December 2007 after the trading hours, CMID, a wholly-owned subsidiary of the Company, entered into the 2007 Brokerage Agreements with CMS in relation to the securities brokerage services provided by CMS to CMID for a term of three years. In view of the imminent expiry of the 2007 Brokerage Agreements, on 8 November 2010 after the trading hours, CMID renewed the 2007 Brokerage Agreements by entering into the Brokerage Agreements with CMS on the same terms as those set out in the 2007 Brokerage Agreements save and except the term in relation to the amount of the commission rate.

The Company is held as to 24.04% by CMG. CMG in turn holds 45.88% of CMS. Since CMG is a substantial shareholder of the Company, CMG is a connected person of the Company. CMS is an associate of CMG and CMS is therefore a connected person of the Company as well. Accordingly, the transactions contemplated under the Brokerage Agreements are considered to be continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the relevant applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the annual caps of the Brokerage Commissions are more than 0.1% but less than 5%, in accordance with Rule 14A.34 of the Listing Rules, the entering into of the Brokerage Agreements is only subject to the reporting, annual review and announcement requirements but is exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **(II) The Proposed Disposals**

The Company obtained the 2009 Disposal Mandates from its Shareholders for disposal of its shareholdings in CMB and IBC which will expire on 13 December 2010.

### **(i) The Proposed CMB Disposal**

As at the date of this announcement, the Company beneficially owns a total of 65,830,102 CMB A Shares, which are listed and freely tradable on the SSE, representing approximately 0.31% interest in the issued share capital of CMB. If the Group proceeds with the Proposed CMB Disposal and on the assumption that all CMB A Shares held by the Group are to be disposed of, the Proposed CMB Disposal may constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules. The Proposed CMB Disposal will then be subject to the requirements of announcement, circular and the Shareholders' approval under the Listing Rules. In view of the imminent expiry of the 2009 Disposal Mandates, the Board proposes to seek the approval of the Shareholders to grant a disposal mandate to the Directors to dispose of the CMB Interests during the Mandate Period on the terms set out in this announcement.

### **(ii) The Proposed IBC Disposal**

As at the date of this announcement, the Company beneficially owns a total of 49,680,000 IBC A Shares, which are listed and freely tradable on the SSE, representing approximately 0.83% interest in the issued share capital of IBC. If the Group proceeds with the Proposed IBC Disposal and on the assumption that all IBC A Shares held by the Group are to be disposed of, the Proposed IBC Disposal may constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules. The Proposed IBC Disposal will then be subject to the requirements of announcement, circular and the Shareholders' approval under the Listing Rules. In view of the imminent expiry of the 2009 Disposal Mandates, the Board also proposes to seek the approval of the Shareholders to grant a disposal mandate to the Directors to dispose of the IBC Interests during the Mandate Period on the terms set out in this announcement.

The Brokerage Agreements and the Proposed Disposals are independent of each other. However, after the entering into of the Brokerage Agreements, the Company may continue to dispose of the CMB Interests and/or the IBC Interests through CMS.

A circular containing further details of the Proposed Disposals together with the notice of the EGM for approving the Proposed Disposals, is expected to be dispatched to the Shareholders on or about 26 November 2010.

## **(I) THE BROKERAGE AGREEMENTS**

On 13 December 2007 after the trading hours, CMID, a wholly-owned subsidiary of the Company, entered into the 2007 Brokerage Agreements with CMS in relation to the securities brokerage services provided by CMS to CMID for a term of three years. Details of the 2007 Brokerage Agreements were set out in the announcement of the Company dated 13 December 2007. In view of the imminent expiry of the 2007 Brokerage Agreements, on 8 November 2010 after the trading hours, CMID renewed the 2007 Brokerage Agreements by entering into the Brokerage Agreements with CMS on the same terms as those set out in the 2007 Brokerage Agreements save and except the term in relation to the amount of the commission rate. Details of the Brokerage Agreements are as follows :-

Date of Signing:	8 November 2010 (after the trading hours)
Effective Date:	13 December 2010 (immediately following the expiry of the 2007 Brokerage Agreements)
Parties :	(i) CMID as service receiver  (ii) CMS as service provider
Nature of Transaction :	Provision of securities brokerage services by CMS to CMID for the trading of securities in the PRC, including, inter alia, carrying out the instructions from CMID, clearing and settlement of securities, providing custodian service of securities, receiving dividend and bonus shares on behalf of CMID, answering queries from CMID regarding the changes of the securities market.
Effective Period :	3 years commencing from 13 December 2010 and expiring on 12 December 2013.
Commission Rate :	After the 2007 Brokerage Agreements which provided for a commission rate of 0.1% on the monetary amount of securities traded through CMS, in view of the Company being an institutional client, CMS offered the Company a more favorable rate of Brokerage Commissions at 0.04% on the monetary amount of securities traded through CMS with an annual cap.

The commission rate was reached after arm's length negotiations between CMID and CMS with reference to the commission rate under the 2007 Brokerage Agreements and the commission rate charged by CMS to its clients who are independent parties of CMS.

Based on its market research, the Company considers that the rate of the Brokerage Commissions to be within the range of commissions charged by other securities broker firms in the PRC.

**Payment Term :** The Brokerage Commissions will be paid upon settlement of the relevant trading transaction of A shares through CMS.

**Annual Cap :**

- (i) 13 December 2010 to 31 December 2010 : HK\$800,000
- (ii) 1 January 2011 to 31 December 2011 : HK\$10,000,000
- (iii) 1 January 2012 to 31 December 2012 : HK\$10,000,000
- (iv) 1 January 2013 to 12 December 2013 : HK\$ 9,200,000

**Basis of the Annual Cap :** The annual cap was determined by reference to the historical amount of brokerage commissions paid by CMID to CMS under the 2007 Brokerage Agreements and the estimated volume of securities to be traded through CMS, taking into account (i) that the Group's investments include listed securities already being traded as well as pre-IPO investments in companies to be listed, (ii) the IBC A Shares required to be disposed of by the Company under the IBC Waiver Conditions; (iii) the CMB Interests and the IBC Interests (being listed securities) proposed to be disposed of under the Proposed Disposals; and (iv) the rise in the exchange rate of RMB.

**Reasons for the Transaction :** The Group specializes in investing in the PRC. Its investment objective is to acquire quality investments in both listed and unlisted enterprises, in the PRC. Investment in A shares is the ordinary course of business of the Group. CMS ranks as top 10 securities companies in the PRC, which can provide a comprehensive securities service including quality brokerage services. The entering into of the Brokerage Agreements with CMS is in the interests of the Group and the Shareholders.

The Directors (including the independent non-executive Directors) are of the view that the Brokerage Agreements were entered into after arm's length negotiations and reflect normal commercial terms and that the terms of the Brokerage Agreements are fair and reasonable and in the interests of the Shareholders and the Company.

## **INFORMATION ABOUT CMS**

CMS is a comprehensive securities company and is engaged in the business of initial public offerings sponsorship, securities underwriting, brokerage, asset management, investment consulting and financial advisory.

## **IMPLICATIONS OF THE BROKERAGE AGREEMENTS UNDER THE LISTING RULES**

The Company is held as to 24.04% by CMG. CMG in turn holds 45.88% of CMS. Since CMG is a substantial shareholder of the Company, CMG is a connected person of the Company. CMS as an associate of CMG is therefore a connected person of the Company as well. Accordingly, the transactions contemplated under the Brokerage Agreements are considered to be continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the relevant applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the annual caps of the Brokerage Commissions are more than 0.1% but less than 5%, in accordance with Rule 14A.34 of the Listing Rules, the entering into of the Brokerage Agreements is only subject to the reporting, annual review and announcement requirements but is exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The previous annual caps under the 2007 Brokerage Agreements were HK\$10 million for each of the financial years ended on 31 December 2008 and 31 December 2009 respectively and HK\$9,200,000 for the period from 1 January 2010 to 12 December 2010. The aggregate brokerage commissions paid by CMID to CMS under the 2007 Brokerage Agreements amounted to US\$34,070 (equivalent to approximately HK\$264,414) and US\$74,656 (equivalent to approximately HK\$579,398) for each of the financial years ended on 31 December 2008 and 31 December 2009 respectively, and US\$70,482 (equivalent to approximately HK\$547,004) for the period from 1 January 2010 to 31 October 2010. Thus the aforesaid annual caps for the 2007 Brokerage Agreements have not been exceeded.

Further announcement will be made if the amount of the Brokerage Commissions exceeds the aforesaid annual caps under the Brokerage Agreements.

To the best of the knowledge and belief of the Directors having made all reasonable enquiry, no Director has a material interest in the transaction contemplated under the Brokerage Agreements such that he or she must abstain from voting on the relevant board resolution.

## **(II) THE PROPOSED DISPOSALS**

The Company obtained the 2009 Disposal Mandates from the Shareholders to dispose of up to 130,170,102 CMB A Shares and 47,900,000 IBC A Shares held by the Group for a period of 12 months from the passing of the relevant resolutions at the extraordinary general meeting of the Company held on 14 December 2009. Details of the 2009 Disposal Mandates were set out in the announcement of the Company dated 9 November 2009 and the circular of the Company dated 27 November 2009. As at the date of this announcement, 59,340,000 CMB A Shares and 5,600,000 IBC A Shares have been disposed of under the 2009 Disposal Mandates.

As at the date of this announcement, 65,830,102 CMB A Shares and 49,680,000 IBC A Shares are held by the Company. It has been the known policy of the Company to dispose of the CMB Interests and the IBC Interests held by the Group in a gradual manner. In view of the imminent expiry of the 2009 Disposal Mandates on 13 December 2010, the Board proposes to seek the approval of the Shareholders to grant fresh mandates to the Board to dispose of the CMB Interests and the IBC Interests at the EGM for another 12 months from the date of the EGM.

### **THE PROPOSED CMB DISPOSAL**

As at the date of this announcement, the Company beneficially owns a total of 65,830,102 CMB A Shares, which are listed and freely tradable on the SSE, representing approximately 0.31% interest in the issued share capital of CMB based on publicly available information.

The Board proposes to seek the approval of the Shareholders to grant a disposal mandate to the Directors to dispose of the CMB Interests during the Mandate Period. The CMB Interests, comprising the 65,830,102 CMB A Shares held by the Company as at the date of this announcement, represent the entire interest held by the Group in CMB. As at the date of this announcement, the Group does not have any discussion with any party to dispose of the CMB Interests. Nevertheless, the Board is of the view that it would be in the best interests of the Shareholders and the Company for the Directors to have flexibility in disposing of the CMB Interests.

After the expiry of the 2009 Disposal Mandates, if the Group proceeds with the Proposed CMB Disposal and on the assumption that all CMB A Shares held by the Group are to be disposed of, the Proposed CMB Disposal may constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules and require compliance with the announcement, circular and shareholders' approval requirements under the Listing Rules. The Company proposes to seek the CMB Disposal Mandate for the Proposed CMB Disposal at the EGM on the following terms:

1. the Group will dispose of the CMB Interests in the open market through the trading system of the SSE;
2. the selling price of the CMB A Shares will be the market price of the CMB A Shares at the relevant times, where market price refers to the price allowed under the trading system of the SSE, but will not be less than RMB6.10 (equivalent to approximately HK\$7.06 ) per CMB A Share; and
3. the disposal mandate is for a 12-month period from the passing of the relevant resolution(s) at the EGM.

The minimum selling price of RMB6.10 was determined on the basis of the 2009 audited net asset value per share of CMB and the valuation of the CMB A Shares with reference to the price-to-book ratio of PRC and international banks listed either in Hong Kong or the United States of America. Based on such valuation, the Directors consider that the minimum selling price will allow flexibility for the Directors to accommodate fluctuation in market conditions in the exercise of the CMB Disposal Mandate and at the same time reflect the lowest acceptable price to dispose of the CMB Interests, and is thus fair and reasonable as far as the Company and the Shareholders are concerned.

The Proposed CMB Disposal will comply with all relevant laws and regulations, including any applicable trading regulations governing the Proposed CMB Disposal in the PRC.

Under the CMB Disposal Mandate proposed to be granted to the Directors, the Group may dispose of the CMB Interests on the SSE through its trading system. The Group will delegate all necessary power to the Investment Manager to handle all matters relating to the Proposed CMB Disposal. In addition, the Company will form a board committee consisting of two members of the investment committee of the Company to monitor the process of execution of disposal orders, and will require the Investment Manager to report and clear with the board committee after the sales of every 6,000,000 CMB A Shares. All elaborations, discussions and decisions in relation to the timing, price and amount of the Proposed CMB Disposal will be kept confidential. The Company will publish an announcement every month to disclose the number of CMB A Shares disposed of pursuant to the CMB Disposal Mandate on aggregate basis and the net proceeds arising therefrom.

## INFORMATION ABOUT CMB

According to the 2009 annual report of CMB and publicly available information, CMB has over 770 branches and offices throughout the PRC. Its A shares were first listed on the SSE in 2002 and its H shares were listed on the Stock Exchange in 2006. As of 31 December 2009, CMB had a registered capital of RMB19,119 million, which was increased to RMB21,577 million immediately following the completion of the rights issue on 9 April 2010. From publicly available information, the Company understands that the main business activities of CMB include: taking deposits from the public; granting short, medium and long-term loans; handling settlements; handling bills discounting; issuing financial bonds; acting as agent for the issue and encashment of, underwriting and trading government bonds; engaging in inter-bank lendings and borrowings; providing letters of credit and guarantees services; engaging in agency collections and payments as well as insurance agency business; providing safe deposit box services; taking foreign currency deposits; granting foreign currency loans; providing remittances services; providing foreign exchange services; providing international settlements services; engaging in foreign currency placements; providing foreign currency bills acceptances and discounting services; trading and trading as agent for foreign currency quoted securities except stocks; issuing and issuing as agent for foreign currency quoted securities except stocks; engaging in proprietary trading and trading on behalf of clients in FX; providing credit investigations, advisory and attestation services; engaging in offshore banking business; engaging in credit card business; providing custodial services for securities investment funds, Qualified Foreign Institutional Investors (QFII), corporate annuity funds (including account management services) and Social Security Funds; underwriting short-term commercial papers; trading derivative products; and other businesses approved by the CBRC.

The following sets out a summary of financial information of CMB for the two years ended 31 December 2009 which were prepared under the PRC accounting standards:

	For the year ended 31 December			
	2009		2008	
	(RMB million) (audited)	HK\$ million equivalent	(RMB million) (audited)	HK\$ million equivalent
Profit before taxation	22,384	25,923	26,759	30,990
Profit after taxation	18,235	21,118	20,946	24,258
Net asset value	92,783	107,452	79,515	92,086



As at 31 December 2009, the audited consolidated net asset value of CMB amounted to approximately RMB92,783 million (equivalent to approximately HK\$107,452 million). The Group held a 0.58% and 0.79% interest of CMB at the financial year end of 2009 and 2008 respectively. The audited net asset value attributable to the CMB A Shares held by the Group was approximately RMB538 million (equivalent to approximately HK\$623 million) as at 31 December 2009. Dividend income received by the Group from CMB amounted to approximately US\$1.37 million (equivalent to approximately HK\$10.63 million) in 2009 and approximately US\$4.93 million (equivalent to approximately HK\$38.26 million) in 2008. The change in fair value on CMB attributable to the Group amounted to gain of approximately US\$144.75 million (equivalent to approximately HK\$1,123.39 million) in 2009 and loss of approximately US\$403.22 million (equivalent to approximately HK\$3,129.35 million) in 2008 respectively.

Based on the carrying amount of the CMB Interests held by the Company as at 31 December 2009 which was US\$118.07 million (equivalent to approximately HK\$916.33 million) and the minimum selling price of RMB6.10 (equivalent to approximately HK\$7.06), the expected realized accounting loss on the disposal of the CMB Interests is US\$77.29 million (equivalent to approximately HK\$599.84 million).

After the 2009 Disposal Mandates were granted and as at 31 December 2009, the Company held 110,770,002 CMB A Shares. Pursuant to the CMB Waiver granted to the Company, the Company was required to, among other things, within 6 months from the completion of the CMB A Rights Issue, dispose of CMB A Shares to the extent that its interest in CMB A Shares would not exceed 20% of the Company's net asset value. 14,400,100 CMB A Rights Shares were allotted to the Company pursuant to the CMB A Rights Issue in March 2010. Between March 2010 and September 2010, 59,340,000 CMB A Shares were disposed by the Company to fulfill the aforesaid condition. As a result, as at the date of this announcement, the Company owns 65,830,102 CMB A Shares, representing the entire interest held by the Group in CMB.

As at the date of this announcement, the CMB Interests account for approximately 17.91% of the Company's net asset value based on the Company's unaudited consolidated accounts as at 30 September 2010.

The Shareholders should note that the actual amounts of proceeds, accounting gain or loss and the effects on the net assets and earnings of the Group will depend on the actual selling prices of the Proposed CMB Disposal.

The highest and lowest closing price of CMB A Shares as quoted on the SSE in the 12 months immediately before the date of this announcement was RMB18.99 and RMB12.52 (equivalent to approximately HK\$21.99 and HK\$14.50) respectively.

## **THE PROPOSED IBC DISPOSAL**

As at the date of this announcement, the Company beneficially owns a total of 49,680,000 IBC A Shares, which are listed and freely tradable on the SSE, representing approximately 0.83% interest in the issued share capital of IBC based on publicly available information.

The Board proposes to seek the approval of the Shareholders to grant a disposal mandate to the Directors to dispose of the IBC Interests during the Mandate Period. The IBC Interests, comprising the 49,680,000 IBC A Shares held by the Company as at the date of this announcement, represent the entire interest held by the Group in IBC. As at the date of this announcement, the Group presently does not have any discussion with any party to dispose of the IBC Interests. Given the IBC Waiver Conditions as described below and the Board is of the view that it would be in the best interests of the Shareholders and the Company for the Directors to have flexibility in disposing of the IBC Interests.

On 8 December 2009, IBC obtained its shareholders' approval for the IBC A Rights Issue. On 5 May 2010, the Company obtained approval by the Shareholders to subscribe for the IBC A Rights Shares. On 26 May 2010, the Company subscribed for 8,280,000 IBC A Rights Shares to which it was entitled under the IBC A Rights Issue in full.

The Company has applied for, and the Stock Exchange has granted the IBC Waiver on the IBC Waiver Conditions. Details of the IBC Waiver and the IBC Waiver Conditions were set out in the announcement of the Company dated 12 April 2010 and the circular of the Company dated 20 April 2010. As part of the IBC Waiver Conditions, the Company is required, among other things, to dispose of the IBC A Shares by the end of June 2011 (as the IBC A Rights Issue was completed in 2010) such that its IBC Interests no longer exceed 20% the Company's net asset value.

After the expiry of the 2009 Disposal Mandates, if the Group proceeds with the Proposed IBC Disposal and on the assumption that all IBC A Shares held by the Group are to be disposed of, the Proposed IBC Disposal may constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules and require compliance with the announcement, circular and shareholders' approval requirements under the Listing Rules. The Company proposes to seek the IBC Disposal Mandate for the Proposed IBC Disposal at the EGM on the following terms:

1. the Group will dispose of the IBC Interests in the open market through the trading system of the SSE;
2. the selling price of the IBC A Shares will be the market price of the IBC A Shares at the relevant times, where market price refers to the price allowed under the trading system of the SSE, but will not be less than RMB14.80 (equivalent to approximately HK\$17.14) per IBC A Share; and

3. the disposal mandate is for a 12-month period from the passing of the relevant resolution(s) at the EGM.

The minimum selling price of RMB14.80 was determined on the basis of the 2009 audited net asset value per share of IBC and the valuation of the IBC A Shares with reference to the price-to-book ratio of PRC and international banks listed either in Hong Kong or the United States of America. Based on such valuation, the Directors consider that the minimum selling price will allow flexibility for the Directors to accommodate fluctuation in market conditions in the exercise of the IBC Disposal Mandate and at the same time reflect the lowest acceptable price to dispose of the IBC Interests, and is thus fair and reasonable as far as the Company and the Shareholders are concerned.

The Proposed IBC Disposal will comply with all relevant laws and regulations, including any applicable trading regulations governing the Proposed IBC Disposal in the PRC.

Under the IBC Disposal Mandate proposed to be granted to the Directors, the Group may dispose of the IBC Interests on the SSE through its trading system. The Group will delegate all necessary power to the Investment Manager to handle all matters relating to the Proposed IBC Disposal. In addition, the Company will form a board committee consisting of two members of the investment committee of the Company to monitor the process of execution of disposal orders, and will require the Investment Manager to report and clear with the board committee after the sales of every 4,000,000 IBC A Shares. All elaborations, discussions and decisions in relation to the timing, price and amount of the Proposed IBC Disposal will be kept confidential. The Company will publish an announcement every month to disclose the number of IBC A Shares disposed of pursuant to the IBC Disposal Mandate on aggregate basis and the net proceeds arising therefrom.

## INFORMATION ABOUT IBC

According to the 2009 annual report of IBC and publicly available information, IBC has over 530 branches and offices throughout the PRC. As of 31 December 2009, IBC had a registered capital of RMB5,000 million, which was increased to RMB5,992 million immediately following the completion of the rights issue on 8 June 2010. From publicly available information, the Company understands that the main business activities of IBC include: taking deposits from the public; granting short, medium and long-term loans; handling domestic and international settlements; handling bills and notes acceptances and discounting; issuing financial bonds; acting as agent for the issue and encashment of and underwriting government bonds; trading government bonds and financial bonds; acting as agent for the issue of quoted securities other than stocks; trading quoted securities other than stocks, either on its own behalf or on behalf of clients; asset custody business; engaging in inter-bank lendings and borrowings; trading foreign currencies, either on its own behalf or on behalf of clients; providing foreign exchange services; engaging in credit card business; providing letters of credit and guarantees services; engaging in agency collections and payments as well as insurance agency business; providing safe deposit box services; providing financial consultancy, credit investigations, advisory and attestation services; and other businesses approved by the CBRC.

The following sets out a summary of financial information of IBC for the two years ended 31 December 2009 which were prepared under the PRC accounting standards:

	For the year ended 31 December			
	2009		2008	
	(RMB million) (audited)	HK\$ million equivalent	(RMB million) (audited)	HK\$ million equivalent
Profit before taxation	17,229	19,953	14,037	16,256
Profit after taxation	13,282	15,382	11,385	13,185
Net asset value	59,597	69,019	49,022	56,772

As at 31 December 2009, the audited consolidated net asset value of IBC amounted to approximately RMB59,597 million (equivalent to approximately HK\$69,019 million). The Group held a 0.94% and 1.30% interest of IBC at the financial year end of 2009 and 2008 respectively. The audited net asset value attributable to the IBC A Shares held by the Group was approximately RMB560 million (equivalent to approximately HK\$649 million) as at 31 December 2009. Dividend income received by the Group from IBC amounted to approximately US\$3.42 million (equivalent to approximately HK\$26.54 million) in 2009 and US\$3.81 million (equivalent to approximately HK\$29.57 million) in 2008. The change in fair value on IBC attributable to the Group amounted to gain of approximately US\$176.67 million (equivalent to approximately HK\$1,371.12 million) in 2009 and loss of approximately US\$317.85 million (equivalent to approximately HK\$2,466.80 million) in 2008 respectively.

Based on the carrying amount of the IBC Interests as at 31 December 2009 (excluding the 8,280,000 IBC A Rights Shares subsequently allotted to the Company) which was US\$244.22 million (equivalent to approximately HK\$1,895.37 million) and the minimum selling price of RMB14.80 (equivalent to approximately HK\$17.14), the expected realized accounting loss on the disposal of the IBC Interests (including the 8,280,000 IBC A Rights Shares allotted to the Company) is US\$156.70 million (equivalent to approximately HK\$1,216.13 million).

After the 2009 Disposal Mandates were granted and as at 31 December 2009, the Company held 47,000,000 IBC A Shares. Pursuant to the IBC Waiver granted to the Company, the Company was required, among other things, to (i) dispose of a minimum of 4,000,000 IBC A Shares and the proceeds of which would be treated as a reserve funding for the IBC A Rights Issue and (ii) by the end of June 2011 or within 6 months from the completion of the IBC A Rights Issue, the Company would further dispose of IBC A Shares to the extent that its interest in IBC A Shares will not exceed 20% of the Company's net asset value. In fulfilling such conditions, by May 2010, the Company had disposed of 5,600,000 IBC A Shares and the proceeds of which was used to subscribe for 8,280,000 IBC A Rights Shares in June 2010. As at the date of this announcement, the Company owns 49,680,000 IBC A Shares and it is still in the progress of disposing the remaining IBC A Shares as required under the aforesaid conditions.

As at the date of this announcement, the IBC Interests account for approximately 26.38% of the Company's net asset value based on the Company's unaudited consolidated accounts as at 30 September 2010.

The Shareholders should note that the actual amounts of proceeds, accounting gain or loss and the effects on the net assets and earnings of the Group will depend on the actual selling prices of the Proposed IBC Disposal.

The highest and lowest closing price of IBC A Shares as quoted on the SSE in the 12 months immediately before the date of this announcement was RMB41.73 and RMB22.41 (equivalent to approximately HK\$48.33 and HK\$25.95) respectively.

## **REASONS FOR AND BENEFITS OF THE PROPOSED DISPOSALS**

As stated in the 2010 interim report of the Company, the Group continuously makes every effort to identify promising new potential investment projects, with an emphasis on investment opportunities in sectors of consumer goods (with particular focus on consumption projects in second- and third-tier cities), financial services, culture and media, pharmaceuticals, and energy and environmental protection. When appropriate, the Group will also seek to turn over investments in its portfolio in order to create greater shareholder value. The proceeds from the Proposed Disposals will put the Group in a better and more flexible financial position to take advantage of current and future investment opportunities should they arise. Upon approval of the IBC Disposal Mandate by the Shareholders, the Company will prioritize its efforts to satisfy the IBC Waiver Condition to dispose of the IBC A Shares by the end of June 2011 such that its IBC Interests no longer exceed 20% the Company's net asset value within the stipulated time frame, while taking into account general market conditions, progress of making new investments and performance of CMB A Shares, IBC A Shares and other investments of the Company. The Directors (including independent non-executive Directors) consider that the Proposed Disposals represent a good opportunity to increase the cash flow of the Company. The Directors consider that the Proposed Disposals will be conducted in the best interests of the Company and the Shareholders as a whole and the CMB Disposal Mandate and the IBC Disposal Mandate will give flexibility to the Directors to dispose of the CMB Interests and the IBC Interests at the appropriate times and prices in order to maximize returns to the Group.

The Directors (including independent non-executive Directors) are of the view that the CMB Disposal Mandate and the IBC Disposal Mandate under the Proposed Disposals are fair and reasonable and in the interests of the Shareholders as a whole, after considering the business fundamentals of CMB and IBC, prevailing market sentiments and conditions, and the financial needs of the Group.

## **IMPLICATIONS OF THE PROPOSED DISPOSALS UNDER THE LISTING RULES**

If the Group proceeds with the Proposed CMB Disposal and the Proposed IBC Disposal, the aggregate of all the shares to be disposed of under the CMB Disposal Mandate and/or the IBC Disposal Mandate may constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules. The Proposed CMB Disposal and the Proposed IBC Disposal will then be subject to the requirements of announcement, circular and the Shareholders' approval under the Listing Rules.

In the event that the Group finds out that the counterparty is a connected person before disposing of the CMB Interests and/or the IBC Interests, the Group will strictly follow the announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular, containing further details of, and other disclosures in connection with, the Proposed Disposals required under the Listing Rules, including the financial information of the CMB Interests and the IBC Interests required under Rule 14.68(2)(b) of the Listing Rules, together with the notice of the EGM for approving the Proposed Disposals, is expected to be dispatched to the Shareholders on or about 26 November 2010.

To the best of the knowledge and belief of the Directors having made all reasonable enquiry, no Shareholder has a material interest in the matters which are the subject of the Proposed Disposals such that it must abstain from voting, and, accordingly, all Shareholders will be permitted to vote at the EGM.

## **INFORMATION ABOUT THE COMPANY**

The Company is an investment company, the Shares of which are listed on the Main Board of the Stock Exchange. The Company specializes in investing in the PRC. Its investment objective is to acquire quality investments, principally in unlisted enterprises, in the PRC. The Company may also invest in China-concept shares, “H” shares, “B” shares and any shares listed in the Stock Exchange provided that the main businesses or incomes of such companies are derived from the PRC including Hong Kong.

## **GENERAL**

Whether the Company decides to proceed with the Proposed Disposals (or not to proceed) will depend on a number of factors including without limitation prevailing market sentiments and market conditions at the proposed time of executing the Proposed Disposals. The decision will also be subject to compliance by the Company with all applicable requirements under the Listing Rules. While the Company currently intends to proceed with the Proposed Disposals after the applicable requirements under the Listing Rules are complied with, it should be emphasized that save for the disposal of IBC A Shares within the time frame as required under the IBC Waiver Conditions, there is no assurance the Company will necessarily proceed with any part of the Proposed Disposals. The Shareholders and other public investors of the Company are therefore advised to exercise extreme caution when dealing in the Shares.

The Proposed CMB Disposal and the Proposed IBC Disposal are independent of each other and not inter-conditional.

## **DEFINITIONS**

“2007 Brokerage Agreements”            the brokerage agreement and the supplemental brokerage agreement both dated 13 December 2007 entered into between CMID and CMS in respect of the provision of securities brokerage services by CMS to CMID

“2009 Disposal Mandates”	the disposal mandates granted to the Directors by the Shareholders at the extraordinary general meeting of the Company held on 14 December 2009 to dispose of up to 130,170,102 CMB A Shares and 47,900,000 IBC A Shares held by the Group for a period of 12 months from the passing of the relevant resolutions, the details of which were set out in the announcement of the Company dated 9 November 2009 and the circular of the Company dated 27 November 2009
“Board”	board of Directors
“Brokerage Agreements”	the brokerage agreement and the supplemental brokerage agreement both dated 8 November 2010 and which will take effect on 13 December 2010 entered into between CMID and CMS in respect of the provision of securities brokerage services by CMS to CMID
“Brokerage Commissions”	the brokerage commissions payable by CMID to CMS under the Brokerage Agreements
“CBRC”	China Banking Regulatory Commission
“CMB”	招商銀行股份有限公司 (China Merchants Bank Co., Ltd.), a joint-stock commercial bank approved by the CBRC in the PRC with limited liability, whose A and H shares are listed on the SSE and the Stock Exchange respectively
“CMB A Rights Issue”	the rights issue of CMB A Shares on the basis of 1.3 CMB A Rights Shares for every 10 existing CMB A Shares as referred to in the announcement of the Company dated 17 March 2010
“CMB A Rights Shares”	the new CMB A Shares allotted and issued pursuant to the CMB A Rights Issue
“CMB A Shares”	PRC-listed domestic shares of par value of RMB1.00 each in the registered capital of CMB
“CMB Disposal Mandate”	the disposal mandate proposed to be granted by the Shareholders to the Directors to dispose of the CMB Interests during the Mandate Period



“CMB Interests”	the 65,830,102 CMB A Shares held by the Company as at the date of this announcement which are freely tradable on the SSE, representing the entire interest held by the Group in CMB
“CMB Waiver”	the waiver granted by the Stock Exchange from strict compliance with Listing Rule 21.04(3)(b) in relation to the subscription for the CMB A Rights Shares allotted and issued to the Company pursuant to the CMB A Rights Issue as disclosed in the announcement of the Company dated 21 October 2009
“CMB Waiver Conditions”	the conditions imposed by the Stock Exchange on the CMB Waiver, details of which were set out in the announcement of the Company dated 21 October 2009 and the circular of the Company dated 27 November 2009
“CMG”	招商局集團有限公司 (China Merchants Group Limited), a company incorporated in the PRC with limited liability
“CMID”	招商局實業發展(深圳)有限公司 (China Merchants Industry Development (Shenzhen) Limited), a company incorporated in the PRC with limited liability and a wholly owned subsidiary of the Company
“CMS”	招商證券股份有限公司 (China Merchants Securities Co., Ltd.), a company incorporated in the PRC with limited liability, whose A shares are listed on the SSE
“Company”	China Merchants China Direct Investments Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company

“EGM”	the extraordinary general meeting proposed to be convened by the Company to consider and, if thought fit, to approve the grant of mandates for the Proposed Disposals
“Group”	the Company, its subsidiaries, jointly controlled entities and associated companies
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“IBC”	興業銀行股份有限公司 (Industrial Bank Co., Ltd.), a joint-stock commercial bank approved by the CBRC in the PRC with limited liability, whose A shares are listed on the SSE
“IBC A Rights Issue”	the rights issue of IBC A Shares on the basis of 2 IBC A Rights Shares for every 10 existing IBC A Shares as referred to in the circular of the Company dated 20 April 2010
“IBC A Rights Shares”	the new IBC A Shares allotted and issued pursuant to the IBC A Rights Issue
“IBC A Shares”	PRC-listed domestic shares of par value of RMB1.00 each in the registered capital of IBC
“IBC Disposal Mandate”	the disposal mandate proposed to be granted by the Shareholders to the Directors to dispose of the IBC Interests during the Mandate Period
“IBC Interests”	the 49,680,000 IBC A Shares held by the Company as at the date of this announcement which are freely tradable on the SSE, representing the entire interest held by the Group in IBC
“IBC Waiver”	the waiver granted by the Stock Exchange from strict compliance with Listing Rule 21.04(3)(b) in relation to the subscription of the IBC A Rights Shares allotted and issued to the Company pursuant to the IBC A Rights Issue as disclosed in the announcement of the Company dated 12 April 2010

“IBC Waiver Conditions”	the conditions imposed by the Stock Exchange on the IBC Waiver, details of which were set out in the announcement of the Company dated 12 April 2010 and the circular of the Company dated 20 April 2010
“Investment Manager”	China Merchants China Investment Management Limited, a fund management company incorporated in Hong Kong with limited liability and registered under the Securities & Futures Ordinance of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mandate Period”	twelve calendar months from the passing of the relevant resolution(s) at the EGM
“PRC”	The People’s Republic of China
“Proposed CMB Disposal”	the proposed disposal of the CMB Interests by the Group pursuant to the CMB Disposal Mandate
“Proposed Disposals”	the Proposed CMB Disposal and the Proposed IBC Disposal
“Proposed IBC Disposal”	the proposed disposal of the IBC Interests by the Group pursuant to the IBC Disposal Mandate
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of US\$0.10 each in the share capital of the Company
“Shareholders”	shareholders of the Company
“SSE”	Shanghai Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of United States of America
“%”	per cent

*For illustrative purposes in this announcement only, RMB1 = HK\$1.1581, US\$1 = HK\$7.7609 and US\$1 = RMB6.7011*

By Order of the Board  
**ZHOU Linda Lei**  
*Director*

Hong Kong, 8 November 2010

*As at the date hereof, the Executive Directors of the Company are Mr. LI Yinquan, Mr. HONG Xiaoyuan, Mr. CHU Lap Lik, Victor; Ms. ZHOU Linda Lei and Mr. TSE Yue Kit; the Non-executive Director is Mr. KE Shifeng; and the Independent Non-executive Directors are Mr. KUT Ying Hay, Mr. WANG Jincheng, Mr. LI Kai Cheong, Samson and Mr. LIU Baojie. In addition, Ms. KAN Ka Yee, Elizabeth is the Alternate Director to Mr. CHU Lap Lik, Victor.*